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SUBJECT: BOLIVIAN MINING: COOPERATIVE CHALLENGES

¶1. Summary: On May 29 and 30 Emboff traveled with representatives of mining cooperatives, at their invitation, to visit cooperative mines and separation plants in north Potosi (note: As of June 9, this region is impassable due to road blockades by cooperatives, private miners, and treatment facilities, protesting the value-added-tax for internal mineral sales which the government has just started to charge. End note.) A number of the cooperatives have reopened old mine workings that are once again profitable due to high world mineral prices. The cooperatives are interested in finding sources for U.S. equipment, particularly high-quality used excavation and mineral processing equipment. During the visit, Emboff was able to see environmental impact and investment issues of cooperative mines. Despite a need for equipment and investment, cooperatives are not set up to easily interact with U.S. markets. End summary.

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Basic Structure of Cooperatives
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¶2. Cooperative mines can be organized in different ways, but generally they are associations of "partners" who own the right to a portion of the production of a certain area of a mine. These partners can hire employees out of their income in order to produce more from their section of the mine: the employees are paid a fixed rate. Cooperatives are defined under Bolivian law as "non-profit" social organizations, and therefore they do not pay income taxes. In the north Potosi area of Llallagua and Uncia, each cooperative mine (with up to 1500 partners) is also a member of the local cooperative federation. Decisions which are strictly internal to a cooperative (such as whether to pursue a new vein of ore that does not cross cooperative boundaries) are made by the leaders of each cooperative, sometimes with a vote of all partners. The federation makes decisions that affect more than one cooperative (such as maintenance of a main mine portal from which multiple shafts belonging to different cooperatives branch off.) All cooperatives contribute money to the federation to maintain joint use areas and equipment such as elevators.

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Need for Equipment and Service
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¶3. Whether theoretically the cooperatives are contributing to maintenance or not, the reality is that both shared and private areas are sadly undermaintained. In one deposit mined by three cooperatives and roughly 4000 workers, Emboff saw an elevator used for ore and personnel that dated from the 1920s and seemed to have had little maintenance in the past decade. The sides and floor of the elevator were rusted through, and there were no safety breaks that would impede a multiple-hundred foot fall when the ancient chain holding the elevator inevitably breaks. A transformer within the mine had reportedly been maintained within the last year, but no one (not even the head of the federation) seemed to know what the maintenance had consisted of: there were no records of the oil changes that should be standard for an industrial transformer.

¶4. Although the partners were most interested in the possibility of importing used trucks, digging equipment, and drills, Emboff also saw an obvious market for more basic supplies such as safety equipment. Emboff's guide mentioned that a safety survey carried out earlier that year had resulted in the recommendation that the miners use respirators or masks because the ventilation system installed in the 1940s no longer functions. Nevertheless, Emboff did not see a single worker with any form of respiratory protection. Many of the workers were wearing construction hard-hats not certified for use in a mining environment, and the mining hardhat worn by Emboff's guide had a large crack running from the top down to the brim, secured by industrial staples. Partners confirmed that there was no radio system for communication within the mine, nor any tag-board or sign-in sheet by which the miners' presence in underground could be tracked.

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Safety Aside (and it is an aside)
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¶5. Although one of the partners asked Emboff about the possibility of arranging safety lectures from U.S. mining experts, it is unclear how much a U.S. safety expert could help in a situation where the standards are so low and the partners seem unwilling or unable to implement suggestions. Despite the recommendation that respirators or masks be used, when Emboff asked about interest in buying these from the United States the partners demurred, saying that they would rather focus on production equipment. Any U.S. safety expert would doubtless make another unpopular but obvious suggestion to improve mine safety: get the kids out of the mine. According to various partners, boys as young as fourteen work in the mine (Note: women do not generally work underground, as they are considered bad luck. End note.) Emboff's guide mentioned that he had started working in his grandfather's cooperative when he was seven.

¶6. According to a representative of the federation, nineteen workers have died in this area in the first five months of 2008; he was not sure of the number of deaths in the year before. This mortality count only includes miners who died in accidents: as in other areas of Bolivia, deaths from dust-related lung disease and other causes indirectly or directly linked to mining are presumably high.

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Unsafe for Man...and the Environment
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¶7. Although there are mining safety regulations in Bolivia (which large companies are required to adhere to and which most international companies exceed), cooperativist miners explained that there are no mine safety inspectors to address any of the concerns listed above. They seemed equally bemused by the idea of environmental inspectors, and there

was clearly no concern about any level of environmental audit. The sides of the road on the way into Llallagua look like a scene out of a post-apocalyptic movie: private mineral separation pits spill a toxic mix of mud and chemicals into the river, whose banks are stained orange with acid mine drainage. At a separation facility belonging to one of the cooperatives, Emboff watched as the froth from a floatation process using chemicals and waste motor oil was methodically swept into the river by a bored employee. "We need new equipment for that," explained the guide: not to avoid spilling the dirty mix into the river, but to automate it.

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A Difficult Market for U.S. Equipment
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¶8. Although there is an obvious need for earth-moving equipment as well as personal safety equipment such as boots, hard-hats and respirators, the market will likely be difficult for U.S. companies to access. Each partner is responsible for buying equipment for his own use, and when Emboff asked about the possibility of pooling orders so as to negotiate a better price with sellers, the partners were interested but unsure how such a process would work. High-price purchases (such as a new winch for the failing elevator) would be negotiated with the federation, and each partner would technically have a vote on the final decision. The partners told Emboff that they are unable to access bank loans, so any large sale would probably need to be arranged as a loan from the U.S. equipment vendor that the cooperatives would pay back as they produce more. Nevertheless, federation representatives informed Emboff after the visit that they had already begun making contact with some of the companies listed in the USCS buyusa.com sites Emboff provided.

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Equally Difficult for Investors
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¶9. The cooperative mines in many cases have reopened mine workings abandoned since Bolivia's mining heyday in the 1940s. Like huts built on the ruins of mansions, the cooperative mines make low-tech use of the old tin barons' infrastructure. Mines that still have tracks no longer have railroad cars, so the miners push old cars by hand until the cars break, and then the tracks are just one more obstacle for miners with sacks of mineral on their backs. A number of partners reminisced to Emboff about the glory days of North Potosi, their boyhoods when the railroads gleamed "like silver," the company store had "the best food, the best toys," and the mines' movie palaces showed all the latest hits. None of this remains: the old engineering headquarters have fallen into disrepair, and armed soldiers guard the sites that belong to the state mining company COMIBOL (either never having been opened to the cooperatives in 1952, or having reverted back to the State, as in the case of Huanuni mine.)

¶10. Leaders of the federation have visions of this greatness returning. One representative told Emboff that recent exploration suggests that the whole hill (now riddled with tunnels and worked by 5,000 cooperative miners) could be turned into an open pit mine. When Emboff asked how a private company might be able to invest to make that scenario a reality, the partners explained that, since the cooperatives have the right to the concessions, any company would have to negotiate with them. Reportedly concessions for another area with substantial tin deposits are managed by COMIBOL, requiring potential investors to either negotiate with the State or with the cooperatives' loosely-organized social groups. As current tax levels yield a government take of over 70 percent in many cases, it is doubtful whether international investors will want to take on this challenge. (Note: A number of partners mentioned that "the Chinese" are interested in the area, but no one remembered an actual visit from any Chinese company. The certainty of Chinese interest in Bolivian mining is widespread, although the evidence of it

is so far scarce. End note.)

¶11. The cooperatives are not able to efficiently recover mineral from their product. One local separation plant in the area specializes in re-processing old mining waste, and the engineer at the plant admitted that even so, 30 percent of the mineral content is lost into the river. The participation of international investors with better equipment and know-how could greatly improve this situation, but any investor would need to be very careful moving into an area with so much existing environmental damage: the government (or international environmental groups) could easily hold companies responsible for damage incurred before their arrival. Involvement of large, international-class mining companies would doubtless improve the area's safety record, as well, but Emboff saw no evidence of current international investor interest.

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